Agenda Item C-8
January 24, 2000

NEW ECONOMY INITIATIVES

Information:

The Council's 2000-02 budget request recommends a Science and Technology Trust Fund to support scientific research in high-tech fields to help colleges and universities transform research knowledge into marketable products. This request for $4.25 million in fiscal year 2002 is designed to advance scientific research at all institutions, assist technology transfer to the marketplace, and establish regional postsecondary/education-based corporations to help rural-based private sector entities access new markets and identify high-tech strengths.

In conjunction with our budget request, the Council staff is also working with Governor's staff and legislative staff on draft legislation to address the following goals:

- Build research capacity through strategic collaborations among postsecondary education institutions and between postsecondary education and the private sector.

- Ensure that the Commonwealth's economic development policies encourage knowledge-based jobs, foster entrepreneurship, and nurture high-tech businesses.

- Establish strategic linkages between postsecondary education investments and long-term economic policy for the Commonwealth.

In his second Inaugural Address (December 7, 1999), Governor Patton indicated that the Commonwealth needed "… to invest in the capital needs of the future. And the new capital of the knowledge-based economy of the 21st century will be the intellectual capital of our people."

In addition, the Governor noted that Kentucky needed to "… begin immediately building that knowledge-based economy we'll need for the 21st century, the only kind of economy that can bring us the prosperity we seek."

What is the "new economy" and what are the roles of Kentucky state government and postsecondary education in this arena? According to the National Governors' Association's (NGA) Center for Best Practices (http://www.nga.org/NewEconomy), the key features of the new economy are as follows:

- The New Economy is Global. Imports and exports combined represent more than 25 percent of Gross Domestic Product (GDP).

- Knowledge and Innovation are the Key Inputs of the New Economy. Microchips and genes, not automobiles, are becoming the major products of the economy.

- The New Economy Places a Premium on Skills and Education. College graduates, on average, make 77 percent more than high school graduates, and the average wage of information technology workers substantially exceeds overall industry wages.

- Small, Fast-Growing Firms Power Job Growth. Seventy percent of new job growth comes from small business.

- Information Technology is at the Core of All Business and is Exploding. Today, 60 percent of all business capital spending is for IT compared to less than 10 percent 30 years ago. According to a Long-Term Policy Research Center report released last month, Collecting Taxes in the Cyberage, the World Wide Web (which did not exist until 1991) had only 130 sites in 1993 but by August 1999 had over 7 million sites. Internet business-to-business transactions are estimated to have exceeded $50 billion last year and by 2003 are expected to reach about $1.3 trillion, representing almost 10 percent of total business sales.

In Kentucky's Science and Technology Strategy, a recent report prepared by the Kentucky Science and Technology Corporation, the authors note that change, knowledge, innovation, and speed "… are the primary forces that drive and shape today's business world." The report outlines a series of strategies designed to assist the Commonwealth in building such an economy. Central among these strategies is assisting universities to promote "… the development of new knowledge, ideas, products, and firms."

The Council staff is continuing its work on this issue during the 2000 session of the General Assembly so that Kentucky can enhance its role in the new, knowledge-driven economy of our nation and the world. We will provide a more detailed report on the legislative status of this activity at the March Council meeting.

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